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RUEHLMC/MILLENNIUM CHALLENGE CORPORATION

UNCLAS COLOMBO 000237

SIPDIS

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SUBJECT: MALDIVES: FISCAL TRANSPARENCY REPORT

REF: SECSTATE 16737

11. (U) The following is the text of Embassy Colombo's fiscal transparency report for Maldives.

12. (SBU) Begin text:

The Government of Maldives practices generally good economic management. It has not achieved a high degree of budgetary transparency, but this is due to capacity limitations, not lack of will.

Maldives' existing budget process and public accounting system were introduced more than three decades ago and are in the process of being modernized. The budget papers are usually prepared in December of each year for submission to the Parliament and comprise the past year's performance, current year's status and proposed future budget proposals. Budget documents in the vernacular language, Dhivehi, are posted on the internet. Budget documents are not available in English on the internet. The financial legislative framework is not comprehensive. Under the current legislative framework, no annual financial statements regarding the government's financial position and status are reported to the parliament and no audited financial statements are prepared. The annual accounts and information are included in the budget papers. Only a limited accounting reporting structure exists. Not all transactions are reflected. The accounting system used in atoll (sub-national) administration units is highly inefficient, leading to excessive holdings and movements of cash. Maldives has developed and publishes online a development assistance database, which tracks foreign aid.

The Maldives constitution gives broad powers to the executive branch in performing most of the core functions relating to budget management, planning, execution, monitoring and evaluation. Recent legislative initiatives aim to improve financial management and regulatory reporting. A new Public Finance Act defining the legal framework for an improved budget process passed in 2006. A new Audit Act creating an independent Audit Office came into force in 12007. The first Auditor General under the Audit Act was appointed in December 2007. The Auditor General is appointed by and reports to the President and the Parliament. The power of budget approval rests with the legislature.

The Government of Maldives has initiated a program to modernize its public accounting system to enable it to improve financial management of the public sector, enhance public sector governance and strengthen its accountability. A diagnostic phase, with technical assistance support provided by the Asian Development Bank

(ADB), was completed in 2002. An implementation phase of the Financial Management Reform program began in 2006 after passage of the Public Finance Act. It focuses on implementing an integrated public accounting and financial management information system. This system includes features for publication and broad dissemination of reports on managing, monitoring and evaluating budget processes. The United States has contributed to this effort by allocating \$425,000 of its \$10.6 million tsunami reconstruction grant to the Maldives' public accounting system reform program. In addition to the ADB, the World Bank and the IMF are the major supporters of this program. The ADB has also recently approved new technical assistance projects for strengthening economic and financial management, debt management and project management.

End text.
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